

Message Text

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C O N F I D E N T I A L TOKYO 14504

LIMDIS GREENBACK

PASS TREASURY FOR CROSS AND WIDMAN

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJECT: PETRODOLLAR DEPOSITS AND U.S. BANKS' LENDING

1. SUMMARY: CONTRARY TO SOME REPORTS OIL DOLLARS VIA EURO-DOLLAR DEPOSIT ROUTE HAVE SLOWED AFTER JULY SPURT. JAPANESE BANKS HAVE NOT INCREASED THEIR MIDDLE EAST SOURCE FUNDS IN PAST TWO MONTHS. AMERICAN BANKERS REMAIN CAUTIOUS IN COMMITTING ADDITIONAL FUNDS TO JAPANESE BORROWERS. END SUMMARY.

2. CONTRARY TO SOME REPORTS (JAPAN ECONOMIC JOURNAL OCT 29) JAPANESE BANKS ARE NOT INCREASING THEIR MIDDLE EAST SOURCE FUNDS. RELIABLE BOJ SOURCE REPORTS THE FOLLOWING: MIDDLE EAST SOURCE FUNDS AT END OF OCT AMOUNTED TO BETWEEN \$1.6-\$1.7 BIL, UP SLIGHTLY FROM \$1.5 BIL IN SEPT BUT LITTLE CHANGED FROM \$1.6 BIL AT END OF AUG. BIG INCREASE IN THESE FUNDS EVIDENTLY TOOK PLACE IN EARLY AUG. ALMOST ALL MIDDLE EAST SOURCE FUNDS ARE DEPOSITED IN LONDON BRANCHES OF JAPANESE BANKS ALTHOUGH DEPOSITS MAY ORIGINATE FROM CONTRACTS DRAWN UP BY BANKERS OPERATING IN BEIRUT. TOTAL EURODOLLAR DEPOSITS OF JAPANESE BANKS' BRANCHES AT END OF OCT WAS SLIGHTLY LESS THAN \$18 BIL GROSS, OR ALMOST \$14 BIL NET OF INTER-BANK DEPOSITS. EACH MONTH SOME \$6 BIL MUST BE ROLLED OVER. IN LATE JULY, ROUGHLY 30-40 PERCENT OF MIDDLE EAST

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DEPOSITS WERE FOR ONE YEAR OR MORE BUT THE PROPORTION OF

LONG-TERM DEPOSITS HAS SUBSEQUENTLY DECLINED. INTEREST PAID ON OIL DOLLAR DEPOSITS IN AUG AND SEPT WAS 0.25 PERCENT ABOVE LIBO BUT PREMIUM HAS NOW RISEN TO 0.5 TO 1 PERCENT.

3. BOJ SOURCE ALSO REPORTS FOLLOWING WHICH MAY OF INTEREST TO WASHINGTON AGENCY. BRANCHES OF EUROPEAN BANKS IN JAPAN HAVE BEEN RELATIVELY INACTIVE EXCEPT FOR BANCA COMMERCIALE ITALIANA AND SOCIETE GENERALE WHICH ARE SMALL IN SIZE AND HAVE RELIED MOST HEAVILY UPON EUROS DOLLAR MARKET AND U.S. SOURCE FUNDS. BASIC POLICY FOR USE OF EUROS DOLLAR FUNDS BY EUROPEAN BRANCHES OF THE JAPANESE BANKS IS TO INVEST IN SYNDICATED LOANS TO MAJOR INTERNATIONAL CORPORATIONS AND COMPANIES. AMERICAN BANKS HAVE BEEN RELIED UPON HEAVILY BY JAPANESE COMPANIES FOR IMPORT USANCE FINANCING, ALTHOUGH IN RECENT MONTHS THERE HAS BEEN SOME SHIFT TOWARDS EUROS DOLLAR SOURCES. JAPANESE TRADING COMPANIES OBTAINED ROUGHLY 40 PERCENT OF THEIR BORROWED FUNDS FROM AMERICAN BANKS AND THE REMAINDER FROM JAPANESE BANKS. BECAUSE OF INSTITUTIONAL FACTORS, TRADING COMPANIES HAVE BEEN UNSUCCESSFUL IN OBTAINING ADEQUATE FUNDING FROM EUROPEAN BANKING SOURCES.

4. FINATT HAS NOTHING NEW TO REPORT ON OFFICIAL RECEIPTS OF PETRODOLLAR DEPOSITS (SEE TOKYO 14068 AND 12485). INCREASE IN OFFICIAL RESERVES OF \$266 MIL AND \$282 MIL IN SEPT AND OCT, RESPECTIVELY, PROBABLY RELATED TO RECEIPT OF \$1 BIL IN SAUDI DEPOSITS.

5. U.S. BANKERS CONTINUE TO GENERALLY REPORT RELUCTANCE TO FURTHER INCREASE THEIR FINANCIAL EXPOSURE IN JAPAN. THIS PREVIOUSLY REPORTED MID-OCT (TOKYO 13319, PARAS 4 AND 5) RECONFIRMED THROUGH FINATT TALKS WITH B OF A HEAD OFFICE AND MORE RECENT CONVERSATIONS WITH U.S. BANKERS IN TOKYO. SLOWDOWN IN U.S. BANK LENDING AFTER JULY CONFIRMED IN RECENT TREASURY B-2 REPORT. MOST BANKERS WILLING TO UTILIZE MONTHLY QUOTA OF NEW IMPACT LOANS (TOTALING \$180 MIL). HOWEVER, NEW LOANS MAY BE MADE OUT OF PROCEEDS OF REPAYMENTS OF EXISTING LOANS SO THAT TOTAL EXPOSURE MAY NOT BE INCREASING. SWAP LINES APPARENTLY HAVE NOT BEEN INCREASED FURTHER SINCE AUG AND MOST BANKS

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REPORT LITTLE INTEREST IN UTILIZING SUCH FUNDS. SOME BANKERS REPORT RECENT FED RESERVE PRESSURE ON HEAD OFFICE TO EITHER INCREASE CAPITAL OR TO LIMIT FUTURE GROWTH IN ASSETS. THUS, PROSPECT FOR ANY SUBSTANTIAL INCREASE IN JAPANESE BORROWING FROM U.S. BANKS SEEMS LIMITED.

6. OVERSEAS BOND FINANCING WILL PROVIDE ONLY LIMITED SOURCE OF FUNDS TO JAPAN. MOF HAS RECENTLY PERMITTED

JAPANESE COMPANIES TO SEEK DOMESTIC FINANCING THROUGH
OVERSEAS BOND ISSUES. INDICATION IS THAT PERHAPS ONE
ISSUE A MONTH WILL BE APPROVED. PREVIOUS OVERSEAS SECURITIES
ISSUES HAVE BEEN FOR FINANCING OFFSHORE ACTIVITIES. LOCAL
SOURCES INDICATE INCREASED OIL COUNTRY INVESTMENTS IN
JAPANESE SECURITIES, INCLUDING \$3 MIL PURCHASE BY KUWAIT
INT INVESTMENT CO. OF MITSUI CO \$20 MIL CONVERTIBLE
DEBENTURE RECENTLY ISSUED IN U.S.
HODGSON

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